

*Ann M. Menke*

**Certified Public Accountant**  
**A Professional Corporation**

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**CITY OF DONNELLSON**

**INDEPENDENT AUDITOR'S REPORTS  
BASIC FINANCIAL STATEMENTS AND SUPPLEMENTAL INFORMATION  
SCHEDULE OF FINDINGS**

**JUNE 30, 2008**

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## City of Donnellson

### Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Bill Young	Mayor	January 1, 2010
Dave Ellingboe	Mayor Pro tem	January 1, 2012
Jan Fraise	Council Member	January 1, 2012
Gary Lightfoot	Council Member	January 1, 2010
Todd Babcock	Council Member	January 1, 2010
Todd Herdrich	Council Member	January 1, 2010
Jane Krebill	Clerk/Treasurer	Indefinite
Greg Johnson	City Attorney	Indefinite

**CITY OF DONNELSON**

*Ann M. Menke*

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## **Independent Auditor's Report**

To the Honorable Mayor and  
Members of the City Council  
Donnellson, Iowa

I have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Donnellson's management. My responsibility is to express opinions on these financial statements based on my audit.

I conducted my audit in accordance with auditing standards generally accepted in the United States of America, and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. I believe that my audit provides a reasonable basis for my opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America. Also, as permitted by the Code of Iowa, the accounting records of the City have not been audited for all prior years. Accordingly, I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007.

In my opinion, except for the effects of such adjustments, if any, as might have been determined to be necessary had I been able to verify the distribution by fund of the total fund balance at July 1, 2007, as discussed in the preceding paragraph, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson as of June 30, 2008, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

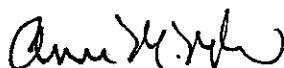
In accordance with Government Auditing Standards, I have also issued my report dated June 25, 2009 on my consideration of the City of Donnellson's internal control over financial reporting and my tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of my testing of internal control over financial reporting and compliance and the results of that testing and not to provide an opinion on internal control over financial reporting or compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of my audit.

Budgetary comparison information on page 17 is not a required part of the basic financial statements, but is supplementary information required by the Governmental Accounting Standards Board. I applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. I did not audit the information and express no opinion on it.

The City of Donnellson, Iowa has not presented Management's Discussion and Analysis that accounting principles generally accepted in the United States of America has determined is necessary to supplement, although not required to be part of, the basic financial statements.

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Donnellson's basic financial statements. Other supplementary information included in Schedules 1 through 3 is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in my audit of the basic financial statements and, in my opinion, is fairly stated, in all material respects, in relation to the basic financial statements taken as a whole.

Sincerely,



Ann M. Menke  
Certified Public Accountant  
Professional Corporation  
June 25, 2009

## **BASIC FINANCIAL STATEMENTS**

**City of Donnellson**  
**Statement of Activities and Net Assets - Cash Basis**  
**For the Year Ended June 30, 2008**

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants Contributions and Restricted Interest	Capital Grants Contributions and Restricted Interest
<b>Functions / Programs:</b>				
Governmental activities:				
Public safety	\$ 134,330	\$ 14,907	\$ 31,249	\$ -
Public works	111,179	1,647	80,184	-
Health and social services	2,475	-	-	-
Culture and recreation	91,123	6,843	27,836	-
General government	101,741	-	-	-
Debt service	30,843	-	-	-
Total governmental activities	<u>471,691</u>	<u>23,397</u>	<u>139,269</u>	<u>0</u>
Business type activities				
Solid waste	28,875	41,189	-	-
Water	106,244	102,467	-	-
Sewer	46,371	52,050	-	-
Total business type activities	<u>181,490</u>	<u>195,706</u>	<u>-</u>	<u>-</u>
Total	<u>\$ 653,181</u>	<u>\$ 219,103</u>	<u>\$ 139,269</u>	<u>\$ -</u>
<b>General Receipts:</b>				
Property tax levied for:				
General purposes				
Debt service				
Insurance				
Employee benefits				
Local option sales tax				
Unrestricted interest on investments				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
<b>Cash Basis Net Assets</b>				
Unrestricted				
Total cash basis net assets				



Net (Disbursements) Receipts and Changes in Cash Basis Net Assets		
Governmental Activities	Business Type Activities	Total
\$ (88,174)	\$ -	\$ (88,174)
(29,348)	-	(29,348)
(2,475)	-	(2,475)
(56,444)	-	(56,444)
(101,741)	-	(101,741)
(30,843)	-	(30,843)
(309,025)	-	(309,025)
-	12,314	12,314
-	(3,777)	(3,777)
-	5,679	5,679
-	14,216	14,216
(309,025)	14,216	(294,809)
136,159	-	136,159
16,635	-	16,635
30,187	-	30,187
14,092	-	14,092
77,784	-	77,784
7,028	208	7,236
5,000	(5,000)	-
286,885	(4,792)	282,093
(22,140)	9,424	(12,716)
230,033	44,251	274,284
\$ 207,893	\$ 53,675	\$ 261,568
207,893	53,675	261,568
\$ 207,893	\$ 53,675	\$ 261,568

See notes to financial statements.

**City of Donnellson**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Governmental Funds**  
**As of and for the Year Ended June 30, 2008**

	General	Special Revenue Road Use Tax	Donnellson Fire Association	Other Non Major Governmental Funds	Total
<b>Receipts:</b>					
Property tax	\$ 166,346	\$ -	\$ -	30,727	\$ 197,073
Other city taxes	77,784	-	-	-	77,784
Licenses and permits	1,648	-	-	-	1,648
Use of money and property	6,793	-	235	-	7,028
Intergovernmental	14,269	80,184	31,249	-	125,702
Miscellaneous	21,749	-	13,567	-	35,316
Total receipts	<u>288,589</u>	<u>80,184</u>	<u>45,051</u>	<u>30,727</u>	<u>444,551</u>
<b>Disbursements:</b>					
Operating:					
Public safety	86,280	-	48,050	-	134,330
Public works	35,490	75,689	-	-	111,179
Health and social services	2,475	-	-	-	2,475
Culture and recreation	91,123	-	-	-	91,123
General government	89,087	-	-	12,654	101,741
Debt service	-	-	14,083	16,760	30,843
Total disbursements	<u>304,455</u>	<u>75,689</u>	<u>62,133</u>	<u>29,414</u>	<u>471,691</u>
(Deficiency) excess of receipts					
(Under) over disbursements	(15,866)	4,495	(17,082)	1,313	(27,140)
Other financing sources (uses)					
Operating transfers in	5,000	-	-	-	5,000
Operating transfers out	-	-	-	-	-
Total other financing sources	<u>5,000</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>5,000</u>
Net change in cash balances	(10,866)	4,495	(17,082)	1,313	(22,140)
Cash balances beginning of year	182,054	1,835	19,935	26,209	230,033
Cash balances end of year	<u>\$ 171,188</u>	<u>\$ 6,330</u>	<u>\$ 2,853</u>	<u>\$ 27,522</u>	<u>\$ 207,893</u>
<b>Cash Basis Fund Balances</b>					
Unreserved:					
General fund	\$ 171,188	\$ -	\$ -	\$ -	\$ 171,188
Special revenue fund	-	6,330	2,853	18,739	27,922
Capital projects fund	-	-	-	6,191	6,191
Debt services fund	-	-	-	2,592	2,592
Total cash basis fund balances	<u>\$ 171,188</u>	<u>\$ 6,330</u>	<u>\$ 2,853</u>	<u>\$ 27,522</u>	<u>\$ 207,893</u>

See notes to financial statements.

**City of Donnellson**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Proprietary Funds**  
**As of and for the Year Ended June 30, 2008**

	Enterprise Funds			
	Water	Sewer	Solid Waste	Total
Operating receipts:				
Use of money and property	\$ -	\$ 116	\$ 92	\$ 208
Charges for services	102,467	52,050	41,189	195,706
Total receipts	<u>102,467</u>	<u>52,166</u>	<u>41,281</u>	<u>195,914</u>
Operating disbursements:				
Business type activities	106,244	46,371	28,875	181,490
Total operating disbursements	<u>106,244</u>	<u>46,371</u>	<u>28,875</u>	<u>181,490</u>
Excess (deficiency) of operating receipts (under) over operating disbursements	(3,777)	5,795	12,406	14,424
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Operating transfers out	-	-	(5,000)	(5,000)
Net non-operating receipts (disbursements)	<u>-</u>	<u>-</u>	<u>(5,000)</u>	<u>(5,000)</u>
Net change in cash balances	(3,777)	5,795	7,406	9,424
Cash balances beginning of year	48,575	1,256	(5,580)	44,251
Cash balances end of year	<u>\$ 44,798</u>	<u>\$ 7,051</u>	<u>\$ 1,826</u>	<u>\$ 53,675</u>
<b>Cash Basis Fund Balances</b>				
Unreserved	44,798	7,051	\$ 1,826	\$ 53,675
Total cash basis fund balances	<u>\$ 44,798</u>	<u>\$ 7,051</u>	<u>\$ 1,826</u>	<u>\$ 53,675</u>

See notes to financial statements.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The City of Donnellson is a political subdivision of the State of Iowa located in Lee County. It was first incorporated in 1892 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council members elected on a non-partisan basis. The City provides numerous services to citizens including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water, sewer, and solid waste utilities for its citizens. The population of Donnellson was 963 according to the 2000 census.

**A. Reporting Entity**

For financial reporting purposes, the City of Donnellson has included all funds, organizations, agencies, boards, commissions, and authorities. The City has also considered all potential component units for which it is financially accountable, and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body, and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific burdens on the City. The City of Donnellson has no component units which meet the Governmental Accounting Standards Board criteria.

**Jointly Governed Organizations**

The City participates in several jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Lee County Assessor's Conference Board, Lee County Emergency Management Commission and Lee County Joint E911 Service Board.

**B. Basis of Presentation**

**Government-wide Financial Statement** – The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for service.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued)**

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

*Restricted net assets* result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets not meeting the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services, or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements – Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental and enterprise funds are aggregated and reported as nonmajor governmental or proprietary funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges, and the capital improvement costs that are not paid from other funds.

**Special Revenue:**

The Road Use Tax Fund is used to account for road construction and maintenance.

The Donnellson Fire Association Fund is used to account for fundraisers, donations and grants for the operation and maintenance of the fire facilities.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 1 – SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)**

**B. Basis of Presentation (Continued)**

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Solid Waste Fund accounts for the operation and maintenance of the City's solid waste system.

**C. Measurement Focus and Basis of Accounting**

The City of Donnellson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable, and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with accounting principles generally accepted in the United States of America.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

**D. Budgets and Budgetary Accounting**

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, debt service and business type functions.

**NOTE 2 – CASH AND POOLED INVESTMENTS**

The City's deposits in banks at June 30, 2008 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 2 – CASH AND POOLED INVESTMENTS (Continued)**

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district. The city did not have any funds invested in a security considered to be an investment by the Code of Iowa as of June 30, 2008.

Interest rate risk – The City's investment policy limits the investment of operating funds (funds expected to be expended in the current budget year or within 15 months of receipt) in instruments that mature within 397 days. Funds not identified as operating funds may be invested in investments with maturities longer than 397 days but the maturities shall be consistent with the needs and use of the City.

**NOTE 3 – PENSION AND RETIREMENT BENEFITS**

The City contributes to the Iowa Public Employees Retirement System (IPERS) which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Most regular plan members are required to contribute 3.9% of their annual covered salary and the City is required to contribute 6.05% of covered salary. Certain employees in special risk occupations and the City contribute an actuarially determined contribution rate. Contribution requirements are established by state statute. The City's contribution to IPERS for the year ended June 30, 2008 was \$10,139, equal to the required contribution for the year.

**NOTE 4 – RISK MANAGEMENT**

The City of Donnellson is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 5 – LONG TERM DEBT**

Bank Loan Agreements

On January 2, 2002, the Donnellson Fire Association entered into a loan agreement totaling \$53,740 with the local bank for the construction of a new fire station. The loan requires annual payments of \$6,960 and bears interest at 5.00% per annum. The unpaid principal balance at June 30, 2008 was \$24,713.

On February 17, 2005, the City entered into a loan agreement with the local bank for \$97,541 to purchase park land. The loan requires annual payments of \$6,235 and bears interest at 4.00% per annum. The principal balance at June 30, 2008 was \$90,071.

On February 17, 2005, the City entered into a loan agreement with the local bank for \$115,000 for capital improvements to the park. The loan requires annual payments of \$10,525 and bears interest at 4.00% per annum. The principal balance at June 30, 2008 was \$105,075.

On May 20, 2005, the Donnellson Fire Association entered into a loan agreement totaling \$18,000 with the local bank for the purchase of some land. The loan requires annual payments of \$2,289 and bears interest at 5.00% per annum. The principal balance at June 30, 2008 was \$13,258.

On January 3, 2006, the Donnellson Fire Association entered into a loan agreement totaling \$20,651 for the purchase of a fire truck. The loan requires annual payments of \$4,834 and bears interest at 5.50% per annum. The principal balance at June 30, 2008 was \$13,065.

On January 12, 2007, the City entered into a loan agreement with the local bank for \$219,812 for water improvements. The loan requires annual payments of \$14,810 and bears interest at 4.50% per annum. The principal balance at June 30, 2008 was \$214,564.

**NOTE 6 – INTERFUND TRANSFERS**

The detail of interfund transfers for the year ended June 30, 2008 is as follows:

Transfer to	Transfer from	Amount
General	Solid Waste	\$ 5,000

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

**NOTE 7 – RELATED PARTY TRANSACTIONS**

The City had business transactions between the City and City officials totaling \$9,025 during the year ended June 30, 2008.



**City of Donnellson**  
**Notes to Financial Statements**  
**For the Year Ended June 30, 2008**

**NOTE 8 – COMPENSATED ABSENCES**

City employees accumulate a limited amount of earned but unused vacation and sick leave hours for subsequent use. Vacation benefits are paid upon termination, retirement, or death. Sick leave benefits are not paid upon termination, retirement, or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and sick leave payments payable to employees at June 30, 2007, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 2,316
Sick leave	<u>7,126</u>
Total	<u>\$ 9,442</u>

This liability has been computed based on rates of pay in effect at June 30, 2008.

## **REQUIRED SUPPLEMENTARY INFORMATION**

**City of Donnellson**  
**Budgetary Comparison Schedule**  
**of Receipts, Disbursements and Changes in Balances -**  
**Budget and Actual (Cash Basis) - All Governmental Funds and Proprietary Funds**  
**Required Supplementary Information**  
**Year Ended June 30, 2008**

	Governmental Funds Actual	Proprietary Funds Actual	Total
<b>Receipts</b>			
Property tax	\$ 197,073	\$ -	\$ 197,073
Other city taxes	77,784	-	77,784
Licenses and permits	1,648	-	1,648
Use of money and property	7,028	208	7,236
Intergovernmental	125,702	-	125,702
Charges for services	-	195,706	195,706
Miscellaneous	35,316	-	35,316
Total receipts	<u>444,551</u>	<u>195,914</u>	<u>640,465</u>
<b>Disbursements</b>			
Public safety	134,330	-	134,330
Public works	111,179	-	111,179
Health and social services	2,475	-	2,475
Culture and recreation	91,123	-	91,123
General government	101,741	-	101,741
Debt service	30,843	-	30,843
Business type activities	-	181,490	181,490
Total disbursements	<u>471,691</u>	<u>181,490</u>	<u>653,181</u>
Excess of receipts over disbursements	(27,140)	14,424	(12,716)
Other financing sources, net	<u>5,000</u>	<u>(5,000)</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	(22,140)	9,424	(12,716)
Balance, beginning of year	<u>230,033</u>	<u>44,251</u>	<u>274,284</u>
Balance, end of year	<u>\$ 207,893</u>	<u>\$ 53,675</u>	<u>\$ 261,568</u>

Budgeted Amounts		Final to
Original	Final	Total Variance
\$ 189,876	\$ 189,876	\$ 7,197
86,179	86,179	(8,395)
1,575	1,575	73
4,850	4,850	2,386
111,225	111,225	14,477
206,450	206,450	(10,744)
10,160	10,160	25,156
<u>610,315</u>	<u>610,315</u>	<u>30,150</u>
66,230	91,230	(43,100)
113,100	123,100	11,921
3,000	3,000	525
98,010	114,010	22,887
103,225	103,225	1,484
16,900	16,900	(13,943)
155,750	171,750	(9,740)
<u>556,215</u>	<u>623,215</u>	<u>(29,966)</u>
54,100	(12,900)	184
-	-	-
54,100	(12,900)	184
<u>207,415</u>	<u>207,415</u>	<u>66,869</u>
<u>\$ 261,515</u>	<u>\$ 194,515</u>	<u>\$ 67,053</u>

See accompanying independent auditor's report.

**City of Donnellson**  
**Notes to Required Supplementary Information -- Budgetary Reporting**  
**June 30, 2008**

The budgetary comparison is presented as Required Supplementary Information in accordance with Governmental Accounting Standards Board Statement No. 41 for governments with significant budgetary perspective differences resulting from not being able to present budgetary comparisons for the General Fund and each major Special Revenue Fund.

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Fund, Permanent Fund, and the Proprietary Funds. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, a budget amendment increased budgeted disbursements by \$67,000. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2008, disbursements exceeded the amounts budgeted in the public safety, debt service and business type functions.

## **OTHER SUPPLEMENTARY INFORMATION**

**City of Donnellson**  
**Statement of Cash Receipts, Disbursements and Changes in Cash Balances**  
**Nonmajor Governmental Funds**  
**As of and for the Year Ended June 30, 2008**

	Special Revenue			
	Employee Benefits	Capital Projects	Debt Service	Total
Receipts:				
Property taxes	\$ 14,092	\$ -	16,635	\$ 30,727
Total receipts	<u>14,092</u>	<u>-</u>	<u>16,635</u>	<u>30,727</u>
Disbursements:				
Operating:				
General government	12,654	-	-	12,654
Debt service	-	-	16,760	16,760
Total disbursements	<u>12,654</u>	<u>-</u>	<u>16,760</u>	<u>29,414</u>
(Deficiency) excess of receipts				
(Under) over disbursements	1,438	-	(125)	1,313
Other financing sources (uses)				
Operating transfers in	-	-	-	-
Total other financing sources	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>
Net change in cash balances	1,438	-	(125)	1,313
Cash balances beginning of year	17,301	6,191	2,717	26,209
Cash balances end of year	<u>\$ 18,739</u>	<u>\$ 6,191</u>	<u>\$ 2,592</u>	<u>\$ 27,522</u>
Cash Basis Fund Balances				
Unreserved:				
Special revenue fund	\$ 18,739	\$ -	\$ -	\$ 18,739
Capital projects fund		6,191		6,191
Debt service fund	-	-	2,592	2,592
Total cash basis fund balances	<u>\$ 18,739</u>	<u>\$ 6,191</u>	<u>\$ 2,592</u>	<u>\$ 27,522</u>

See accompanying independent auditor's report.

**City of Donnellson**  
**Schedule of Indebtedness**  
**For the Year Ended June 30, 2008**

<u>Obligation</u>	<u>Date of Issue</u>	<u>Interest Rates</u>	<u>Amount Originally Issued</u>
Bank loan agreements:			
Fire station	January 2, 2002	5.00%	53,740
Park land	February 17, 2005	4.00%	97,541
Park improvements	February 17, 2005	4.00%	115,000
Fire association land	May 20, 2005	5.00%	18,000
Fire truck	January 3, 2006	5.50%	20,651
Water improvements	January 12, 2007	4.50%	219,812
Total			



Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid
30,172	-	5,459	24,713	1,500
92,603	-	2,532	90,071	3,703
111,154	-	6,079	105,075	4,446
14,811	-	1,553	13,258	736
16,971	-	3,906	13,065	928
219,812	-	5,248	214,564	9,593
<u>\$ 485,523</u>	<u>\$ -</u>	<u>\$ 24,777</u>	<u>\$ 460,746</u>	<u>\$ 20,906</u>

See accompanying independent auditor's report.

*Ann M. Menke*

Certified Public Accountant  
A Professional Corporation

Independent Auditor's Report on Internal Control  
over Financial Reporting and on Compliance and Other Matters  
Based on an Audit of Financial Statements Performed in Accordance  
with Government Auditing Standards

To the Honorable Mayor and  
Members of the City Council  
Donnellson, Iowa

I have audited the accompanying financial statements of the governmental activities, business type activities, each major fund and the aggregate remaining fund information of the City of Donnellson, Iowa, as of and for the year ended June 30, 2008, which collectively comprise the City's basic financial statements listed in the table of contents and have issued my report thereon dated June 25, 2009. My report expressed qualified opinions on the financial statements which were prepared in conformity with an other comprehensive basis of accounting since I was unable to satisfy myself as to the distribution by fund of the total fund balance at July 1, 2007. I conducted my audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing my audit, I considered the City of Donnellson's internal control over financial reporting as a basis for designing my auditing procedures for the purpose of expressing my opinions on the financial statements, but not for the purpose of expressing my opinion on the effectiveness of the City of Donnellson's internal control over financial reporting. Accordingly, I do not express an opinion on the effectiveness of the City of Donnellson's internal control over financial reporting.

My consideration of internal controls over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, I identified certain deficiencies in internal control over financial reporting that I consider to be significant deficiencies and other deficiencies I consider to be material weaknesses.

A control deficiency exists when the design or operation of the control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the City of Donnellson's ability to initiate, authorize, record, process, or report financial data reliably in accordance with an other comprehensive basis of accounting such that there is more than a remote likelihood a misstatement of the City of Donnellson's financial statements that is more than inconsequential will not be prevented or detected by the City of Donnellson's internal control. I consider the deficiencies in internal control described in Part I of the accompanying Schedule of Findings to be significant deficiencies in internal control over financial reporting.

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood a material misstatement of the financial statements will not be prevented or detected by the City of Donnellson's internal control.

My consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, of the significant deficiencies described above, I believe items 2008-I-A, 2008-I-B, and 2008-I-C are material weaknesses.

#### Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City of Donnellson's financial statements are free of material misstatement, I performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of my audit and, accordingly, I do not express such an opinion. The results of my tests disclosed no instances of non-compliance or other matters that are required to be reported under Government Auditing Standards. However, I noted certain immaterial instances of non-compliance or other matters that are described in the accompanying Schedule of Findings.

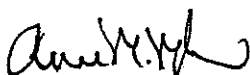
Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2008 are based exclusively on knowledge obtained from procedures performed during my audit of the financial statements of the City. Since my audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes.

The City of Donnellson's responses to findings identified in my audit are described in the accompanying Schedule of Findings. While I have expressed my conclusions on the City's responses, I did not audit the City of Donnellson's responses and, accordingly, I express no opinion on them.

This report, a public record by law, is intended solely for the information and use of the officials, employees, and citizens of the City of Donnellson and other parties to whom the City of Donnellson may report including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

I would like to acknowledge the many courtesies and assistance extended to me by personnel of the City of Donnellson during the course of my audit. Should you have any questions concerning any of the above matters, I shall be pleased to discuss them with you at your convenience.

Sincerely,



Ann M. Menke  
Certified Public Accountant  
June 25, 2009

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES:**

**2008-I-A**

Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. When duties are properly segregated, the activities of one employee act as a check on those of another. Generally, one person has control over each of the following areas for the City:

1. Accounting system – performing all general accounting functions and custody of assets.
2. Cash – preparing bank account reconciliations, initiating cash receipts and disbursement functions and handling and recording cash.
3. Investments – detailed record keeping, custody of investments and reconciling earnings.
4. Long term debt – recording and reconciling.
5. Receipts – collecting, depositing, journalizing, reconciling, and posting.
6. Utility receipts – billing, collecting, depositing, and posting.
7. Disbursements – check writing, reconciling, and posting.
8. Payroll – preparation, distribution, and posting.
9. Financial reporting – preparing, reconciling, and distributing.

Recommendation – I realize that with a limited number of office employees, segregation of duties is difficult. However, the City should continue to review its control procedures to obtain the maximum internal control possible under the circumstances utilizing currently available personnel. Evidence of independent reviews should be indicated by initials of the independent reviewer.

Response – We will consider this.

Conclusion – Response accepted.

**2008-I-B**

Reconciliation of Utility Billings, Collections and Delinquencies – Utility billings, collections and delinquent accounts were not reconciled throughout the year. Also, utility collections were not reconciled to deposits.

Recommendation – Procedures should be established to reconcile utility billings, collections and delinquencies for each billing period and to reconcile collections to deposits. The Council or a Council-designated independent person should review the reconciliations and monitor delinquencies.

Response – We will consider this.

Conclusion – Response accepted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part I: Findings Related to the Financial Statements:**

**SIGNIFICANT DEFICIENCIES: (Continued)**

2008-I-C

Separately Maintained Records – The Donnellson Fire Association maintains separate accounting records pertaining to their operations. This activity is not included in the City's accounting records or included as part of the City's budgeting process. This financial activity has been included in Exhibits A and B. following benefits:

Recommendation – Chapter 384.20 of the Code of Iowa states, in part, "A City shall keep accounts which show an accurate and detailed statement of all public funds collected, received, or expended for any purpose..." For better accountability, financial and budgetary control, the financial activity and balances of the Donnellson Fire Association should be included in the City's accounting records and reported to the City Council on a monthly basis.

Response – The Donnellson Fire Association is considering filing for a nonprofit status with the Iowa Secretary of State. We will also review our accounting procedures and implement any changes as the Donnellson Fire Association goes through the process of becoming a legal nonprofit entity.

Conclusion – Response accepted.

**INSTANCES OF NON-COMPLIANCE:**

No matters were noted.

**Part II: Other Findings Related to Statutory Reporting:**

2008-II-A

Certified Budget – Disbursements during the year ended June 30, 2008, exceeded the amounts budgeted in the public safety, debt service and business type functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

Recommendation – The budget should have been amended in accordance with Chapter 384.20 of the Code of Iowa before disbursements were allowed to exceed the budget.

Response – The budget will be amended in the future, if applicable.

Conclusion – Response accepted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part II Other Findings Related to Statutory Reporting: (Continued)**

**2008-II-B**

Questionable Disbursements – No expenditures for parties, banquets, or other entertainment for employees were noted that we believe may constitute an unlawful expenditure from public funds as defined in an Attorney General's opinion dated April 25, 1979.

**2008-II-C**

Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.

**2008-II-D**

Business Transactions – Business transactions between the City and City officials or employees are detailed as follows:

Name, Title, and Business Connection	Transaction Description	Amount
Dave Ellingboe, Mayor Pro-Tem, Owner of Donnellson Tire and Service	Fuel, tires and repairs	\$ 9,025

In accordance with Chapter 362.5(11) of the Code of Iowa, the above transactions may represent a conflict of interest since the cumulative amount was greater than \$2,500 during the year.

Recommendation – The city should consult legal counsel to determine the disposition of this matter.

Response – We will comply with this recommendation.

Conclusion – Response acknowledged. The City should consult the City Attorney to determine the disposition of this matter.

**2008-II-E**

Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part IV Other Findings Related to Statutory Reporting: (Continued)**

**2008-II-F**

Council Meetings – No transactions were found that I believe should have been approved in the Council minutes but were not. Although minutes of Council proceedings were published, they were not published as required by Chapter 372.13(6) of the Code of Iowa. Also, the City could not locate all of the publications of the minutes.

Recommendation – The city should publish minutes as required by the Code of Iowa. Also a separate file should be kept for the publications for ease of location.

Response – City minutes will be published as required and a separate file for all publications will be made.

Conclusion – Response accepted.

**2008-II-G**

Deposits and Investments – No instances of noncompliance with the deposit and investment provisions of Chapter 12B and 12C of the Code of Iowa and the City's investment policy were noted.

**2008-II-H**

Electronic Check Retention – Chapter 554D.114 of the Code of Iowa allows the City to retain cancelled checks in an electronic format and requires retention in this manner to include an image of both the front and back of each cancelled check. The City retains cancelled checks through electronic image, but does not obtain an image of the back of each cancelled check as required.

Recommendation – The City should obtain and retain an image of both the front and back of each cancelled check as required.

Response – We will inform the bank of these requirements.

Conclusion – Response accepted.

**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part IV Other Findings Related to Statutory Reporting: (Continued)**

2008-II-I

Local Option Tax – The City recorded local option tax collections in the General Fund rather than establishing a separate Special Revenue Fund as required by the Code of Iowa.

Recommendation – The City should establish a separate Special Revenue Fund for local option tax revenues and record the related transactions in the fund.

Response – We will establish a separate Special Revenue Fund and record the related transactions in this fund.

Conclusion – Response accepted.

2008-II-J

Donnellson Fire Association – The Donnellson Fire Association (Association) was formed in 1949 pursuant to a fire protection agreement between the City of Donnellson (City) and several surrounding Townships. An Agreement and Contract for Fire Protection and Emergency Services (Agreement) was subsequently approved and signed by the City in May, 2000 and by the Association in August, 2000. The spaces to document filing with the Secretary of State and County Recorder were blank and we were unable to determine whether the Agreement was, in fact, filed with these agencies.

It is our understanding the Agreement approved in 2000 was intended to serve as a 28E agreement between the two parties even though Chapter 28E was not specifically referenced in the Agreement. Chapter 28E of the Code of Iowa allows Iowa public agencies (including cities) to enter into an agreement with one or more public or private agencies for joint or co-operative action pursuant to the provisions of Chapter 28E of the Code of Iowa, including the creation of a separate entity to carry out the purpose of the agreement.

The Donnellson Fire Association has obtained its own taxpayer identification number but is not established as a separate legal entity (nonprofit organization). The Iowa Secretary of State certified the Association has not filed as a 501(c) (3) (nonprofit) organization.

The financial activity of the Association has been and will continue to be reported as a department of the City of Donnellson until such time as the Association is able to document its separate legal status.

Recommendation – The City and the Donnellson Fire Association should consult legal counsel, review the agreement and take the necessary steps to resolve this matter.

Response – The Donnellson Fire Association is considering obtaining a legal separate nonprofit status. Once obtained, a new agreement will be drafted in reference to Chapter 28E of the Code of Iowa.

Conclusion – Response accepted.



**City of Donnellson  
Schedule of Findings  
For the Year Ended June 30, 2008**

**Part IV Other Findings Related to Statutory Reporting: (Continued)**

2008-II-K

Annual Financial Report – The annual financial report for the fiscal year ended June 30, 2008 did not include the financial activity of the separately maintained Donnellson Fire Association.

Additionally, the City did not include the fire truck , fire station or land purchase loan that the Donnellson Fire Association had. Also, the water utility loan's beginning and ending balance was not correct.

Recommendation – The annual financial report should include all applicable financial information.

Response – Future financial reports will include all applicable financial information and data.

Conclusion – Response accepted.

**City of Donnellson**

**Audit Staff**

The audit was performed by:

Ann M. Menke, CPA

Carol Ross, CPA

Betty Thomas, CPA

Kristy Adams, Staff Accountant

*Ann M. Menke*

Certified Public Accountant  
A Professional Corporation

June 25, 2009

City of Donnellson  
500 North Oak  
Donnellson, Iowa 52625

**AUDIT BILLING SUMMARY**

Planning and fieldwork completed for audit of June 30, 2008 financial statements:

Planning	
Review of audit programs	
Confirmation process	
19.4 hours	\$1,655.00

Detail testing of receipts and disbursements	
Review of minutes	
Compliance testing	
Reconciliation of accounts	
Internal control documentation	
58.75 hours	4,305.00

Report preparation	
Copying and assembly of reports	
9.25 hours	545.00

Office review	
Followup	
6.25 hours	<u>445.00</u>

TOTAL AUDIT BILLING	<u>\$6,950.00</u>
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## News Release

For Release:

Ann M. Menke, CPA, PC, of West Point, Iowa, today released an audit report for the fiscal year ended June 30, 2008, on the City of Donnellson, Iowa.

Ann M. Menke, CPA reported that the City's receipts totaled \$640,465 for the year ended June 30, 2008, an 2.54% decrease from the prior year. The receipts included \$197,073 in property tax, \$195,706 from charges for service, \$139,269 from operating grants, contributions, and restricted interest, \$77,784 from local option sales tax, \$7,236 in unrestricted interest on investments, and \$23,397 in other general receipts.

Disbursements for the year totaled \$653,181 a .01% decrease from the prior year, and included \$134,330 for public safety, \$111,179 for public works, and \$101,741 for general government. Also, disbursements for business type activities totaled \$181,490.

The decrease in receipts is due to the sale of an asset in 2007 with the disbursements remaining relative the same for 2008.

A copy of the audit report is available for review in the of the City Clerk's Office, the Office of Auditor of State, and on the Auditor of State's web site at <http://auditor.iowa.gov/reports/reports.htm>.